Second Quarter Financial Report 2015-16

For the period ended September 30, 2015

Farm Credit Canada
Advancing the business of agriculture

Canada

Farm Credit Canada

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We lend money and provide other services to primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture. We share business management knowledge and training with our customers, free of charge. We offer insurance, venture capital and management accounting software that's designed specifically for agriculture. We're a team of more than 1,700 employees operating from more than 100 offices located primarily in rural Canada. We have professional expertise in many fields, focusing on agriculture, and we're passionate about what we do.

Contact Corporate Communication at communications@fcc-fac.ca **for more information.**

Second Quarter Financial Report 2015-16
For the period ended September 30, 2015

This report was prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and should be read in conjunction with disclosures and information contained in FCC's annual report and corporate plan summary.[1]

Financial results

This document contains the corporation's unaudited financial results for the second quarter, which ended September 30, 2015. The corporation is on track to meet the financial performance measures for the current fiscal year as outlined in the corporate plan summary for 2016-20.

Net income overview

($ millions)

	Three months ended		Six months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net interest income	$ 250.2	$ 236.4	$ 493.4	$ 463.9
Provision for credit losses	(25.6)	(13.0)	(42.4)	(33.4)
Insurance and other income	2.1	2.9	6.6	7.4
Administration expenses	(85.4)	(82.4)	(174.4)	(165.1)
Fair value adjustment	0.7	2.2	15.8	2.3
Net income	$ 142.0	$ 146.1	$ 299.0	$ 275.1

In the second quarter of 2015-16, net income was $4.1 million lower than the same quarter for 2014-15. This was mainly due to an increase in provision for credit losses of $12.6 million and administration expenses of $3.0 million and a decrease in fair value adjustment of $1.5 million, partly offset by an increase in net interest income of $13.8 million.

Net interest income for the six-month period ended September 30, 2015, increased $29.5 million due to portfolio growth and slightly higher margins. The net interest margin for the six-month period ended September 30, 2015, increased to 3.36% from 3.34% for the comparable period in 2014-15. The increase in the net interest margin was mainly due to lower borrowing costs.

The provision for credit losses for the six-month period ended September 30, 2015, increased $9.0 million over the prior year primarily due to the annual recalibration of the allowance for credit loss model.

Administration expenses increased $9.3 million year-over-year mainly due to an increase in benefits expense and fees resulting from the performance of venture capital investments.

The increase in the fair value adjustment for the six-month period ended September 30, 2015, was primarily due to an increase in the fair value of a venture capital investment.

[1] These documents are available at www.fcc-fac.ca/About Us/Corporate Profile.

Loans receivable

FCC experienced overall growth in loans receivable of $1,155.7 million from March 31, 2015, bringing its loan portfolio to $28.5 billion at September 30, 2015. Loan portfolio growth of 4.2% for the six months ended September 30, 2015, was higher than the loan portfolio growth of 4.0% for the first six months of the prior fiscal year. This was due to lower loan repayments, offset by lower net disbursements in the current fiscal year. Net disbursements for the six months ended September 30, 2015, were $4.4 billion, a decrease of $33.1 million, or 0.7%, from the six months ended September 30, 2014.

Cash flow

Cash and cash equivalents at September 30, 2015, increased to $1,187.6 million from $1,144.1 million at September 30, 2014. For the six-month period ended September 30, 2015, cash of $830.7 million was used in operating activities, while $821.1 million and $43.9 million was provided by financing activities and investing activities respectively.

Outlook against corporate plan summary

FCC is projected to meet all year-end financial targets as outlined in the corporate plan summary for 2016-20.

Measure	Outlook
Net income	Ahead of Corporate Plan
Return on equity	Ahead of Corporate Plan
Efficiency ratio	Ahead of Corporate Plan
Total capital ratio	On track with Corporate Plan

Enterprise risk management

FCC has an enterprise risk management framework to manage risks efficiently, consistently and in a co-ordinated manner. The corporation is exposed to six main categories of risk: credit, market, liquidity, operational, strategic and reputation.

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making. The Risk Committee of the Board reviews risk reporting quarterly.

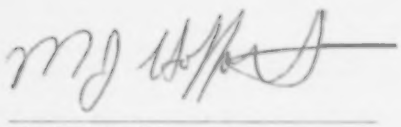
FCC's risk assessment process includes risk identification and assessment, measurement, control, monitoring and reporting. This is an ongoing process for credit and market risk. All risks are assessed annually during the strategic planning process and constitute the corporation's risk profile. Enterprise Management Team members are responsible for developing and implementing risk management strategies and action plans to mitigate the corporation's top risks.

Based on these processes, no new material risks were identified this quarter.

Statement of management responsibility

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.



Michael Hoffort, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and Chief Financial Officer

Regina, Canada
November 11, 2015

Condensed Consolidated Financial Statements
Consolidated Balance Sheet

(Unaudited)
(Thousands of Canadian dollars)

	Sept. 30, 2015	March 31, 2015
Assets		
Cash and cash equivalents	$ 1,187,575	$ 1,166,754
Accounts receivable	19,812	23,336
Derivative financial assets	56,134	58,828
	1,263,521	1,248,918
Loans receivable – net (Notes 2 and 3)	28,222,712	27,102,815
Finance leases receivable – net	15,027	15,497
Venture capital investments	134,113	179,788
	28,371,852	27,298,100
Equipment and leasehold improvements	20,252	17,142
Computer software	28,615	25,359
Equipment under operating leases	67,747	70,221
Other assets	21,997	20,722
	138,611	133,444
Total assets	$ 29,773,984	$ 28,680,462
Liabilities		
Accounts payable and accrued liabilities	$ 63,076	$ 77,966
Borrowings (Note 4)		
Short-term debt	13,120,151	13,709,423
Long-term debt	11,126,319	9,722,524
	24,246,470	23,431,947
Transition loan liability	123,987	96,257
Post-employment benefit liabilities	143,325	143,563
Other liabilities	17,600	18,993
	284,912	258,813
Total liabilities	24,594,458	23,768,726
Equity		
Contributed surplus	547,725	547,725
Retained earnings	4,471,744	4,175,856
Accumulated other comprehensive income	118,933	130,944
Equity attributable to shareholder of parent entity	5,138,402	4,854,525
Non-controlling interest in structured entity	41,124	57,211
	5,179,526	4,911,736
Total liabilities and equity	$ 29,773,984	$ 28,680,462

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Operations

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended		Six months ended	
	Sept. 30, 2015	Sept. 30, 2014	**Sept. 30, 2015**	Sept. 30, 2014
Interest income	**$ 304,010**	$ 308,784	**$ 593,594**	$ 596,817
Interest expense	**53,840**	72,403	**100,214**	132,915
Net interest income	**250,170**	236,381	**493,380**	463,902
Provision for credit losses	**25,574**	12,950	**42,357**	33,352
Net interest income after provision for credit losses	**224,596**	223,431	**451,023**	430,550
Net insurance income	**2,480**	2,661	**6,743**	6,962
Other (expense) income	**(352)**	221	**(151)**	383
Net interest income and non-interest income	**226,724**	226,313	**457,615**	437,895
Administration expenses				
Salary expense	**37,568**	37,438	**77,242**	75,333
Benefits expense	**17,671**	15,185	**35,430**	30,591
Professional fees expense	**10,885**	9,459	**24,219**	20,212
Facilities, software and equipment expense	**7,491**	7,192	**14,706**	14,379
Amortization and depreciation expense	**4,433**	5,259	**9,121**	10,670
Other expenses	**3,156**	3,076	**5,704**	5,097
Travel and training expense	**2,789**	3,107	**5,493**	6,362
Marketing and promotion expense	**1,409**	1,708	**2,470**	2,492
Total administration expenses	**85,402**	82,424	**174,385**	165,136
Net income before fair value adjustment	**141,322**	143,889	**283,230**	272,759
Fair value adjustment	**728**	2,167	**15,785**	2,325
Net income	**$ 142,050**	$ 146,056	**$ 299,015**	$ 275,084
Net income (loss) attributable to:				
Shareholder of parent entity	**$ 143,983**	$ 144,891	**$ 295,888**	$ 274,163
Non-controlling interest in structured entity	**(1,933)**	1,165	**3,127**	921

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended		Six months ended	
	Sept. 30, 2015	Sept. 30, 2014	**Sept. 30, 2015**	Sept. 30, 2014
Net income	**$ 142,050**	$ 146,056	**$ 299,015**	$ 275,084
Other comprehensive income				
Items that are or may be reclassified to net income				
Net losses on derivatives designated as cashflow hedges	-	(2,840)	-	(2,141)
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(6,028)**	(5,670)	**(11,986)**	(11,279)
Net unrealized (losses) gains on available-for-sale financial assets	**(33)**	186	**(25)**	(369)
	(6,061)	(8,324)	**(12,011)**	(13,789)
Total other comprehensive loss	**$ (6,061)**	$ (8,324)	**$ (12,011)**	$ (13,789)
Total comprehensive income	**$ 135,989**	$ 137,732	**$ 287,004**	$ 261,295
Total comprehensive income (loss) attributable to:				
Shareholder of parent entity	**$ 137,922**	$ 136,567	**$ 283,877**	$ 260,374
Non-controlling interest in structured entity	**(1,933)**	1,165	**3,127**	921

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

(Unaudited)
(Thousands of Canadian dollars)

	Balance July 1, 2015	Net income	Other comprehensive income	Distributions to non-controlling interest	**Balance Sept. 30, 2015**
Contributed surplus	$ 547,725	$ -	$ -	$ -	**$ 547,725**
Retained earnings	4,327,761	143,983	-	-	**4,471,744**
Net gains (losses) on derivatives designated as cash flow hedges	125,543	-	(6,028)	-	**119,515**
Net unrealized losses on available-for-sale financial assets	(549)	-	(33)	-	**(582)**
Total accumulated other comprehensive income (loss)	124,994	-	(6,061)	-	**118,933**
Total equity attributable to parent	5,000,480	143,983	(6,061)	-	**5,138,402**
Non-controlling interest in structured entity	59,149	(1,933)	-	(16,092)	**41,124**
Total	$ 5,059,629	$ 142,050	$ (6,061)	$ (16,092)	**$ 5,179,526**

(Unaudited)
(Thousands of Canadian dollars)

	Balance July 1, 2014	Net income	Other comprehensive income	Distributions to non-controlling interest	Balance Sept. 30, 2014
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ 547,725
Retained earnings	3,606,073	144,891	-	-	3,750,964
Net gains (losses) on derivatives designated as cash flow hedges	137,016	-	(8,510)	-	128,506
Net unrealized (losses) gains on available-for-sale financial assets	(1,092)	-	186	-	(906)
Total accumulated other comprehensive income (loss)	135,924	-	(8,324)	-	127,600
Total equity attributable to parent	4,289,722	144,891	(8,324)	-	4,426,289
Non-controlling interest in structured entity	48,258	1,165	-	488	49,911
Total	$ 4,337,980	$ 146,056	$ (8,324)	$ 488	$ 4,476,200

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

(Unaudited)
(Thousands of Canadian dollars)

	Balance April 1, 2015	Net income	Other comprehensive income	Distributions to non-controlling interest	**Balance Sept. 30, 2015**
Contributed surplus	$ 547,725	$ -	$ -	$ -	**$ 547,725**
Retained earnings	4,175,856	295,888	-	-	**4,471,744**
Net gains (losses) on derivatives designated as cash flow hedges	131,501	-	(11,986)	-	**119,515**
Net unrealized losses on available-for-sale financial assets	(557)	-	(25)	-	**(582)**
Total accumulated other comprehensive income (loss)	130,944	-	(12,011)	-	**118,933**
Total equity attributable to parent	4,854,525	295,888	(12,011)	-	**5,138,402**
Non-controlling interest in structured entity	57,211	3,127	-	(19,214)	**41,124**
Total	$ 4,911,736	$ 299,015	$ (12,011)	$ (19,214)	**$ 5,179,526**

(Unaudited)
(Thousands of Canadian dollars)

	Balance April 1, 2014	Net income	Other comprehensive income	Distributions to non-controlling interest	Balance Sept. 30, 2014
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ 547,725
Retained earnings	3,476,801	274,163	-	-	3,750,964
Net gains (losses) on derivatives designated as cash flow hedges	141,926	-	(13,420)	-	128,506
Net unrealized losses on available-for-sale financial assets	(537)	-	(369)	-	(906)
Total accumulated other comprehensive income (loss)	141,389	-	(13,789)	-	127,600
Total equity attributable to parent	4,165,915	274,163	(13,789)	-	4,426,289
Non-controlling interest in structured entity	53,853	921	-	(4,863)	49,911
Total	$ 4,219,768	$ 275,084	$ (13,789)	$ (4,863)	$ 4,476,200

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Cash Flows

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended		Six months ended	
	Sept. 30, 2015	Sept. 30, 2014	**Sept. 30, 2015**	Sept. 30, 2014
Operating activities				
Net income	**$ 142,050**	$ 146,056	**$ 299,015**	$ 275,084
Adjustments to determine net cash (used in) provided by operating activities:				
Net interest income	**(250,170)**	(236,381)	**(493,380)**	(463,902)
Unwind adjustment on impaired loans	**(1,796)**	(616)	**(3,496)**	(1,102)
Provision for credit losses	**25,574**	12,950	**42,357**	33,352
Fair value adjustment	**(728)**	(2,167)	**(15,785)**	(2,325)
Amortization and depreciation	**4,433**	5,259	**9,121**	10,670
Gain on sale of investments	**-**	(409)	**-**	(498)
Foreign exchange loss	**2,592**	9,959	**13,719**	9,390
Net cash outflow from loans receivable	**(352,283)**	(329,533)	**(1,138,067)**	(1,043,607)
Net cash inflow from finance leases receivable	**996**	74	**759**	675
Net change in other operating assets and liabilities	**(39,637)**	(36,511)	**2,321**	39,982
Interest received	**238,654**	237,454	**542,192**	536,366
Interest paid	**(44,949)**	(63,737)	**(89,434)**	(125,754)
Cash used in operating activities	**$ (275,264)**	$ (257,602)	**$ (830,678)**	$ (731,669)
Investing activities				
Net cash inflow from temporary investments	**$ -**	$ 34,914	**$ -**	$ 140,581
Acquisition of venture capital investments	**(35,133)**	(2,003)	**(48,992)**	(4,912)
Proceeds on disposal and repayment of venture capital investments	**97,419**	666	**113,472**	23,337
Purchase of equipment and leasehold improvements	**(4,765)**	(1,288)	**(7,089)**	(1,703)
Purchase of computer software	**(4,001)**	(598)	**(8,403)**	(995)
Purchase of equipment under operating leases	**(7,059)**	(8,802)	**(12,608)**	(20,618)
Proceeds on disposal of equipment under operating leases	**2,757**	2,070	**7,554**	5,478
Cash provided by investing activities	**$ 49,218**	$ 24,959	**$ 43,934**	$ 141,168
Financing activities				
Long-term debt issued	**$ 3,845,000**	$ 1,709,999	**$ 5,950,000**	$ 3,510,000
Long-term debt repaid	**(2,625,200)**	(1,495,000)	**(4,605,200)**	(2,653,000)
Short-term debt issued	**6,507,956**	11,803,859	**11,973,888**	23,426,994
Short-term debt repaid	**(7,491,179)**	(11,778,965)	**(12,497,584)**	(23,566,696)
Cash provided by financing activities	**$ 236,577**	$ 239,893	**$ 821,104**	$ 717,298
Change in cash and cash equivalents	**$ 10,531**	$ 7,250	**$ 34,360**	$ 126,797
Cash and cash equivalents, beginning of period	**1,179,610**	1,145,778	**1,166,754**	1,026,820
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**(2,566)**	(8,903)	**(13,539)**	(9,492)
Cash and cash equivalents, end of period	**$ 1,187,575**	$ 1,144,125	**$ 1,187,575**	$ 1,144,125
Cash and cash equivalents are comprised of:				
Cash	**$ 93,455**	$ 78,684	**$ 93,455**	$ 78,684
Short-term investments	**1,094,120**	1,065,441	**1,094,120**	1,065,441

The accompanying notes are an integral part of the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Significant accounting policies

Basis of presentation

The condensed consolidated interim financial statements (interim financial statements) comply with the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada.

These interim financial statements do not include all of the information required for complete annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended March 31, 2015.

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Financial Statements are in thousands of Canadian dollars, which is the functional currency of FCC.

Accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the annual audited financial statements for the year ended March 31, 2015.

Reclassification of comparative figures

FCC has reclassified certain comparative figures in the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows to better reflect the nature of expenses as well as to conform to the current year presentation. The reclassification was immaterial and did not have an impact on the Consolidated Statement of Comprehensive Income. For the three and six month periods ended September 30, 2014, $3.3 million and $6.3 million, respectively, of depreciation on equipment under operating leases has been reclassified from amortization and depreciation expense, included in administration expenses, to interest expense.

1. Significant accounting policies (continued)

Current accounting changes

FCC has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on FCC. Management is in the process of assessing the impact of these standards and amendments on FCC's financial statements and accounting policies. A number of other amendments and improvements have been issued by the IASB and are not listed below and are not yet effective.

Standard	Details	Date of initial application
IFRS 15 – Revenue from Contracts with customers	The IASB issued IFRS 15 which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	April 1, 2018
IFRS 9 – Financial Instruments	In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated that this standard will change the classification of FCC's temporary investments from available for sale to amortized cost. IFRS 9 also introduces an expected loss impairment model for all financial assets not at fair value through profit and loss. The model has three stages: (1) On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established. (2) If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. (3) When a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.	April 1, 2018

2. Loans receivable – net

($ thousands)

	Term to maturity				
	Within 1 year	1 - 5 years	Over 5 years	Sept. 30, 2015	March 31, 2015
Floating	$ 3,265,031	$ 13,086,823	$ 575,475	$ 16,927,329	$ 16,779,289
Fixed	2,221,190	7,465,462	1,871,235	11,557,887	10,550,181
Gross loans receivable	5,486,221	20,552,285	2,446,710	28,485,216	27,329,470
Deferred loan fees				(20,483)	(20,399)
Loans receivable – total				28,464,733	27,309,071
Allowance for credit losses				(242,021)	(206,256)
Loans receivable – net				$ 28,222,712	$ 27,102,815

3. Allowance for credit losses – loans receivable

($ thousands)

	Sept. 30, 2015	March 31, 2015
Individual allowance, beginning of year	$ 93,433	$ 143,557
Provision for credit losses	36,208	(14,947)
Losses covered under the Hog Industry Loan Loss Reserve Program	12	201
Unwind adjustment on impaired loans	(3,496)	(454)
Writeoffs	(4,925)	(35,991)
Recoveries	1,655	1,067
Individual allowance, end of period	$ 122,887	$ 93,433
Collective allowance, beginning of year	$ 112,823	$ 389,869
Provision for credit losses	6,150	(266,294)
Losses covered under the Hog Industry Loan Loss Reserve Program	589	(5,204)
Writeoffs	(367)	(6,132)
Recoveries	(61)	584
Collective allowance, end of period	$ 119,134	$ 112,823
Total allowance	$ 242,021	$ 206,256

4. Borrowings

Short-term debt

($ thousands)

		Sept. 30, 2015		March 31, 2015
Government of Canada debt				
Floating-rate borrowings	$	9,106,989	$	9,738,627
Fixed-rate borrowings		3,550,145		3,610,699
		12,657,134		13,349,326
Capital markets debt				
USD fixed-rate promissory notes (1)		354,970		252,050
Retail and institutional fixed-rate notes		108,047		108,047
Total	$	13,120,151	$	13,709,423

(1) $266.0 million USD (March 31, 2015 - $199.0 million USD)

Long-term debt

($ thousands)

		Sept. 30, 2015		March 31, 2015
Government of Canada debt				
Floating-rate borrowings	$	7,388,965	$	6,837,611
Fixed-rate borrowings		3,427,801		2,575,702
		10,816,766		9,413,313
Capital markets debt				
Retail and institutional fixed-rate notes		309,553		309,211
Total	$	11,126,319	$	9,722,524